

# European Community Newsletter

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*EC Heads of State or Government at their meeting in Brussels*

## ***The European Council In Brussels: What Next?***

Despite expectations raised after the fiasco of the previous summit meeting in Athens last December, the EC Heads of State or Government failed once again to come to any formal conclusions during their meeting in Brussels on 19-20 March. Once again, problems, whose solution is fundamental to the operation of the European Community, were left unsolved. These include: the reform of the Common Agricultural Policy (CAP) which receives more than 60% of the current EC budget; the launching of new policies capable of developing the European construction in areas of critical significance for its future; and the reform of the Community financial system so that the burden of the budget is shared in an equitable fashion and new resources are made available to secure the financing of a widened European enterprise through its enlargement to include Spain and Portugal.

The stalemate faced by Europe as a result of the failure of the Heads of State or Government to take comprehensive decisions on the aforementioned problems, has nevertheless not paralyzed the ability of the Community institutions to confront the crisis. The governing bodies of the EC have rapidly concluded some of the substantial discussions which were left unfinished by the European Council. In fact, the EC agricultural ministers achieved a major success during their meeting in Brussels on 31 March. They showed themselves capable of taking an important decision by majority in fixing the prices for the 1984-85 agricultural year and in initiating significant structural reforms of the 25 year old Common Agricultural Policy (in line with Commission proposals intended to adapt CAP to prevailing market

conditions). The Common Agricultural prices were, for the first time since the implementation of the CAP, frozen or reduced by an average of 0.5%. Milk production will be significantly reduced in the Community as a whole (with certain derogations in particular for Ireland) and a guarantee threshold system was strengthened or introduced for a large range of products. Moreover, a mechanism was approved for the progressive dismantling of the Monetary Compensatory Amounts, which have increasingly caused disturbances in the internal EC agricultural market by seeking to offset the effects of currency fluctuations over the years.

Despite the failure to adopt formal conclusions, the EC Heads of State or Government reached a consensus on the need for Europe to make rapid and substantial progress in such crucial areas as scientific research, biotechnology and telecommunications (in addition to the implementation of the very significant ESPRIT programme which was adopted in February), the protection and the promotion of employment as well as on the need to improve the internal trade flows and defence against unlawful trade practices. Such convergence of political will at the EC Summit led to the adoption by the EC Foreign Affairs Council at their meeting in Luxembourg at the beginning of April, of a new Commercial Instrument (which will enable the European Community to combat as a whole unlawful trade practices) and of a number of important reductions in technical barriers to internal trade — long advocated by the EC Commission.

The EC budget is an issue which still remains unsolved and the European Community here faces a fundamental problem, since its resolution is vital for its survival. Negotiations on this subject dominated discussion at the Summit; a reform of the financial system (which has been in effect since 1970) could not be agreed upon because of the inability of the Ten to reach a consensus on how to divide the burden. Lengthy discussions were held on the reduction of the contribution of the United Kingdom to the budget, but despite a discrepancy of only 200-300 million ECUs between the demands of the UK and the offers of the other Member States, a solution could not be found. Moreover, talks on the urgently needed increase in EC own resources to finance both present and future expenditure, did not go far enough to reach a consensus on the level of «financial security» which was proposed by the EC Commission (a raise in the current ceiling on revenue from VAT receipts from 1% to 2%).

The absence of agreement on this pivotal subject places the Community in a crisis situation in which, for the first time, its current budget will fall short of funds. As a result, the EC Commission decided, on 18 April to ask the Member States for a loan of 2.3 billion ECU to cover the expected shortfall in the EC own resources for 1984. The proposed loan would

bear interest at current market rates and would be repaid in 8 half yearly installments beginning in June 1986, the year during which the Commission expects the new «own resources» to be made eventually available (following ratification by the national parliaments).

Will Europe founder on the budget problem? A budget of some 25 billion ECU which accounts for only about 1% of the total GNP of the Community of the Ten and some 2% of the public expenditure of its Member States. An ever tightening budgetary austerity would eventually jeopardize the functioning of the EC, although some savings and a fundamentally sound reorientation of expenditure were concepts approved by all participants at the Summit, and form the basis of the new agricultural package. And, as President Thorn put it the day after the European Council had closed its meeting: «There is a tremendous way to save money and that is to achieve Europe.»

## **An Interview with Edgard Pisani, EC Commissioner for Development**

*Have the internal problems currently facing the EC, deflected its attention away from its relationship with developing countries? Or has so much talk of "crisis" within the EC tarnished the EC's image in the Third World? How does the EC view its policy towards developing countries? These were some of the questions put to Mr. Edgard Pisani, EC Commissioner for Development, in a recent interview he granted to Mr. Malcolm Subahan, Brussels Correspondent for the Far Eastern Economic Review.*

The EC's standing in Mr. Pisani's view was not reduced, "on the contrary" he said, "I am impressed by the importance leaders of developing countries attach to their links with the EC. In my travels I have yet to meet someone who thought, even for a moment, that Europe cannot be effective, and cannot be present."

Mr. Pisani categorized the developing countries into three (although not necessarily homogenous) groups, namely, the ACP countries (the African, Caribbean and Pacific countries, which are linked to the EC by the Lomé Convention); the Mediterranean countries and thirdly the countries in Asia and Latin America. But the Commissioner's comments focused mainly on the first group.

"The ACP countries," Mr. Pisani said, "need external help to survive as much as to build their future. The volume of Community aid is less important than its significance; it is contractual, negotiated, durable and, therefore, neutral and politically significant." The Commissioner explained that "by accepting the political choice of each developing country, the Community is making a political statement at the level even of North-South relations. At the same time, by identifying itself more with the development problems of the South

as a whole than of individual developing countries, the EC is giving political significance to the North-South relationship in its totality."

The aftermath of the economic recession has promoted protectionist tendencies, Mr. Pisani conceded, but as a counterbalance "there is the growing awareness of the importance of developing countries as a market for European goods." Moreover the EC Commissioner noted, "...the EC must deploy its efforts in at least two directions. It must (1) keep its markets open to the developing countries and (2) remain as competitive as possible, as otherwise the US and Japan would wipe it off the trade map... In order to remain competitive the Community is obliged to develop new products and new technologies. However, to do this effectively it needs to give up some of its traditional industries, to the benefit of the developing countries. The problem here is one of timing and opportunity..."

In a reply to a question about how the ACP countries could develop a more competitive industrial system, Mr. Pisani etched out three possibilities namely, "1) the transfer from industrialized countries of labour-intensive industries 2) the processing of locally available raw materials and 3) import substitution." The Commissioner favoured the second and third option. "The developing countries currently import some 90 million tons of foodgrains a year: by the year 2000 their imports are expected to reach 250 million tons. A handful of industrialized countries could meet the food needs of developing countries. But in order to buy food on this scale developing countries would have to cut back on their imports of petroleum products." Moreover, Mr. Pisani added that it is essential for each country, each region to be self-sufficient in food. Only in this way could it guarantee both its sovereignty and its survival."

When questioned whether food self-sufficiency would eliminate the need for food aid, Mr. Pisani said that such type of aid was a "necessary evil" because it encourages "1) negative effects on domestic-production 2) it tends to create new food habits not always adapted to local conditions and 3) its urban bias, including its tendency to strengthen a bureaucracy centered on the capital city."

Mr. Pisani also pointed out that total aid has levelled off "...so that any increase in food aid is at the expense of development aid. The only way out of this dilemma..." the Commissioner claimed "...is to use food aid as an instrument of development."

The Commissioner while firmly praising food self-sufficiency as "a worthwhile goal" recognized that there are countries which consider that it is more effective to produce cash crops — tea, coffee, sugar, cotton — for the export market and use the derived earnings to import foodstuffs. However, in Mr. Pisani's opinion "most countries have enough land to both aim at food self-sufficiency and increase their output of cash crops. So it is not a question of either/or; "both are necessary."

On the subject of the ongoing negotiations for the renewal of the Lomé Convention and potential changes in approach in development aid, Mr. Pisani indicated that he favoured a greater "policy dialogue" which would help ACP countries to focus on their own medium and long term priorities "to do what they want to do but cannot do on their own."

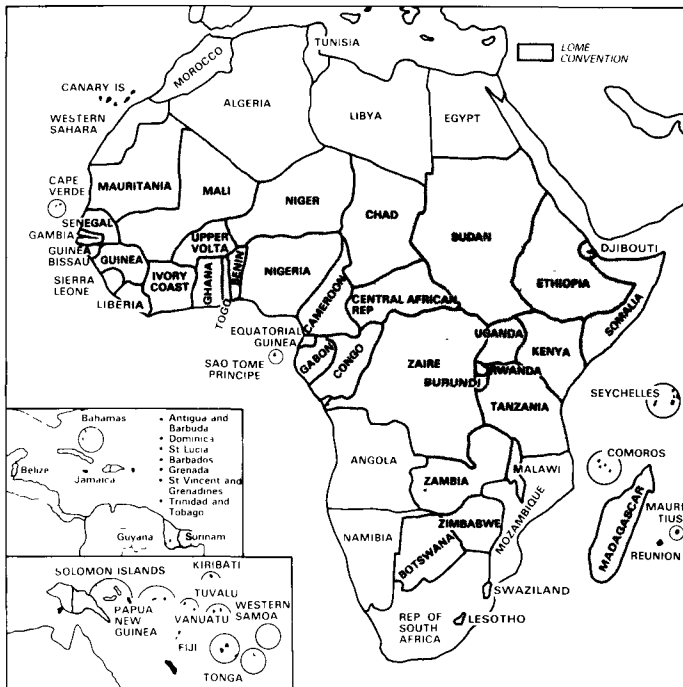
Moreover on the question that the new Lomé Convention confirm the importance of human rights, the EC Commissioner said "the Lomé Convention is much more than a trade agreement, it is an instrument of solidarity between people who are dealing with each other as equals and therefore undertake to be themselves." Mr. Pisani added that it is not



Edgard Pisani

the EC's intention that reference to human rights in the new Convention would "condition Community aid, for example, rather it would represent a target."

#### ACP COUNTRIES



countries are obliged to keep the bilateral exchange rates for their currencies within these limits.

Over the past five years, despite the instability of the international monetary environment, the EMS undoubtedly has reduced erratic moves in the exchange rates of the 8 participating European currencies. Moreover, the EMS survived the second energy crisis and the dollar volatility, as well the differing policies and economic performances of the Member States. It has also been a powerful factor in holding together common policies and the homogeneity of the Community. "The EMS may also have played a historic role in avoiding a split in economic policies, that would have put into question the very existence of the Community," Mr. Ortoli said.

But whatever the gains of the EMS, there remains a great deal to be done. According to Mr. Ortoli, the progress is needed in four distinct areas. They include: consolidation of the EMS, a confirmation of Europe's monetary identity in the world, a strengthening of the role of the ECU and the creation of a European financial market.

The central element of the EMS, the ECU, is already firmly associated with Europe's monetary identity. One way to consolidate the system would be therefore, to widen the acceptability of the ECU in dealings between central banks and to encourage its use in transactions with third country banks. Vice-President Ortoli also wants an end to obstacles to private use of the ECU, which is increasing. Bond issues in ECU introduced in April 1981, amounted to 1,350 million ECU, in the first eight months of 1983 and accounted for nearly 4% of the world total, ranking in importance only after the issues in dollars and in deutsche-marks.

## The European Monetary System — Five Years On

"Monetary and financial integration in Europe is a key factor in the battle for growth and jobs because it will free capital and help to establish a vital international economic order," according to European Commissioner Vice-President Francois-Xavier Ortoli who is responsible for economic and financial affairs. Speaking in Rome, Mr. Ortoli emphasized that the European Monetary System (EMS) celebrated its fifth birthday in March 1984.

The European Monetary System — which is based on co-ordinated exchange rate constraint — was formulated during the 1970's as a defensive reaction against the disorderly movements of the dollar; the exchange rate instability was perceived not only as injurious to international trade, but also as an impediment to economic convergence between the EC Member States.

The EMS, with its exchange rate policy which is neither as rigid as a fixed rate policy nor as prone to instability as free floating currency rates, was designed to provide greater stability by setting agreed rules for co-ordinated (and limited) market management. The participating European currencies (the pound sterling and the Greek drachma have yet to join) have a central rate specified in terms of the European Currency Unit (ECU) — a composite monetary unit consisting of a weighted basket of EC currencies (currently 1 ECU = 0.85 US\$) — and these central rates are used to calculate a grid of bilateral exchange rates around which maximum fluctuation margins of plus or minus 2.25% (6% for the Italian lira) are established. The participating

## ESPRIT: An EC approach to Information Technology.

At the end of February, the green light was formally given by the EC Council of Research Ministers to launch the European Strategic Programme for Research and Development in Information Technology (ESPRIT).

Endowed with a five-year budget of 1.5 billion ECU, of which the EC will contribute 50%, the programme aims to encourage and promote precompetitive collaborative research and development so as to create conditions in which European Information Technology industries can compete and co-operate with the world leaders.

Over the past ten years the European position in the Information Technology (IT) has eroded seriously; in 1975 the EC had a trade surplus of \$1.7 billion, but it is now running a deficit of over \$5 billion — a figure which could quadruple by 1990 even though the world information technology market is projected to grow from \$300 billion in 1982 to around \$680 billion in 1992, an annual growth rate of over 8%.

Another illustration of this erosion is that although the Community represents over 30% of the world Information Technology market, European industry commands scarcely 10% of this market and a little more than a third of the European market itself.

European IT companies are relatively small compared with world leaders. EC governments have attempted to compensate for their lack of size either by protective

measures or subsidization, but these have also slowed down the creation of a harmonized EC market, with an integrated IT infrastructure and compatible standards.

ESPRIT is strategic in two respects. First it is aimed at pre-competitive research. The European IT industry needs technological independence if it is to put the latest products on the market in time to be competitive. Pre-competitive research is where a Community initiative can have the quickest effect, provided it stimulates not only the creation of new technological prototypes but also the transfer of technology around the Community.

The first five year phase which has just been approved will raise the expenditure in pre-competitive R&D to around 6% of total EC investment in Information Technology R&D, which is more in line with the competition world-wide.

Secondly, ESPRIT is selective; it will concentrate resources on key sectors of IT development. The programme will focus on specific inter-related areas: micro-electronics, information processing, software technology, automatic office equipment and integrated computer production.

The aid available under this programme is open to companies, universities, and other educational establishments currently carrying out R & D in Information Technology within the EC (requests for information about ESPRIT received by the Commission, total already some 6,000).

## **Official inauguration of JET**

On 9 April, Queen Elizabeth II officially opened the JET (Joint European Torus) project at Culham in the United Kingdom. The opening ceremony of this joint European thermonuclear installation was attended by French President Francois Mitterrand, President in exercise of the EC Council, and the EC's Commission President Gaston Thorn.

The Joint European Torus project began just over five years ago when the EC Governments agreed on co-operation to build one of the most advanced prototypes for a nuclear fusion reactor in the world. In the words of President Thorn, «Only the European Community is able to promote these large scale schemes which would be too much for one EC Member country to bear».

The most obvious example of a nuclear fusion is the sun, which produces energy from the synthesis of a helium nucleus from two lighter nuclei. Nuclear fusion — once controlled — offers considerable advantages including tremendous low cost and pollution-free energy potential and a higher nuclear safety factor.

The JET experiment is the largest of its kind ever attempted and has been undertaken with funds from the European Community (80%), from the UK (11%) and from other EC Member States as well as from Sweden and Switzerland. The total cost incurred so far is 322 million ECUs.

## **News in Brief**

### **EC-EFTA: First-ever Ministerial Meeting**

17 ministers from the 10 EC Member States and from the 7 EFTA countries (Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland) held a joint meeting in Luxembourg on 9 April. The purpose was to celebrate the completion of the free trade zone in reciprocal industrial relations, which has led to the creation of the largest free trade area in the world. The combined EC-EFTA area accounts for about one tenth of the world's population and conducts 38% of world trade.

### **ACP-EC Ministerial Conference**

The Third ACP-EC Ministerial Conference for the renewal of the Lomé Convention will be held in Fiji 2-5 May, 1984. The Second Lomé Convention which came into force on 1 January, 1981, expires on 28 February, 1985. Negotiations for the renewal of the Convention were formally opened in Luxembourg on 6 October, 1983.

### **European Political Cooperation**

On 27 March, the EC's Foreign Ministers adopted, in the context of the European Political Cooperation, declarations on the Middle East, Lebanon, Iran/Iraq, East/West relations, Cyprus and Latin America. The texts of these statements have been circulated at the United Nations (see UN document A/39/161-S/16456).

On 5 and 13 April, EC political cooperation meetings at ministerial level were held with China and with India for the first time, the European side being represented by the President in office of the Council (France), by the past presidency (Greece) and by the future presidency (Ireland) as well as by the Commission.

### **European Parliament Elections**

Elections for the European Parliament will be held throughout the European Community from 14-17 June 1984. The present European Parliament was directly elected on 7-10 June 1979.

### **European Council**

The next European Council meeting will take place on 25-26 June in Fontainebleau, France. The Council will be presided over by France. In July, Ireland assumes the presidency of the Council for the second half of 1984.

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### **Delegation of the Commission of the European Communities to the United Nations.**

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